

Message Text

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47

ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 SAM-01 SSO-00 NSCE-00 INRE-00

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SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 SAJ-01 AGR-05

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INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID

AMCONSUL OPORTO

AMEMBASSY PARIS

USMISSION OECD PARIS

AMCONSUL PONTA DELGADA

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION NATO

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SUBJ: EMERGENCY ECONOMIC MEASURES: COMMENT

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1. COUNCIL OF MINISTERS DECISIONS REPORTED REFTEL REPRESENT LIMITED, HALTING STEP TOWARD AUSTERITY. DECISIONS REALLY EN- COMPASS A BROAD MIXTURE OF AUSTERITY, STIMULATIVE AND ADMINI- STRATIVE MEASURES. A NUMBER OF ANTICIPATED MEASURES, SUCH AS PRICE INCREASES, WERE NOT MENTIONED. DECISIONS INDICATE CLEARLY THAT GOP OPTING FOR GRADUAL RATHER THAN ABRUPT IMPLEMENTATION OF AUSTERITY PROGRAM, HOPING TO MINIMIZE IMPACT OF PROGRAM ON LOWEST INCOME SECTORS.

2. ANNOUNCED TAX INCREASES REPRESENT THE ONLY GENUINE AUSTERITY DECISIONS. IMPORTANCE OF THESE MEASURES CANNOT BE GAUGED UNTIL GOP CLARIFIES ACTION TAKEN, E.G., PUBLISHES LIST OF ITEMS AF- FECTED BY INCREASED SALES TAXES. THIS SITUATION IS SIMILAR TO THAT OF SEVERAL OTHER AREAS. COMMUNIQUE ANNOUNCED APPROVAL OF FOREIGN INVESTMENT CODE AND OF ENERGY CONSERVATION MEASURES, BUT DID NOT PROVIDE ANY SPECIFICS.

3. SEVERAL OF THE ANNOUNCED MEASURES WILL HAVE LITTLE IF ANY PRACTICAL EFFECT. DECISIONS TO ASSIST EXPORTS ARE SIGNIFICANT, BUT ARE MUCH TOO SMALL. SIMILARLY, SPECIAL TREATMENT FOR IMMIGRANT SAVINGS, THOUGH A POSITIVE STEP, UNLIKELY TO INCREASE SUCH REMITTANCES MEASURABLY IN THE SHORT TERM. PRACTICAL IMPACT OF REDUCTION IN REDISCOUNT RATE WILL BE MINIMAL. THIS MEASURE DESIGNED LARGELY TO REDUCE OPERATING LOSSES OF COMMERCIAL BANKING SYSTEM, WHICH HAS ALREADY BORROWED EXCESSIVELY FROM BANK OF PORTUGAL. ESTABLISHMENT OF PREFERENTIAL DISCOUNT RATE FOR AGRICULTURAL AND FISHING SECTORS WILL NOT DIVERT MUCH INVESTMENT CAPITAL INTO THOSE SECTORS. LOANS TO THESE AND OTHER SECTORS DURING THE PAST YEAR HAVE GENERALLY BEEN MADE ON POLITICAL RATHER THAN ECONOMIC CRITERIA. REDISCOUNT RATES HAVE HAD LITTLE IMPACT.

4. TWO OF THE ANNOUNCED MEASURES ARE SOMEWHAT DISQUIETING. THE ISSUANCE OF A 19 BILLION ESCUDO INTERNAL LOAN AND LOAN GUARANTEES FOR FOUR COMPANIES REFLECT GOP DETERMINATION TO SUBSIDIZE EMPLOYMENT. RESOURCES FOR THESE TWO EXPENDITURES WILL COME LARGELY FROM THE COMMERCIAL BANKS AND, ULTIMATELY, FROM BANK OF PORTUGAL. THEY WILL, IN EFFECT, REPRESENT PURE MONETARY INCREASE HEIGHTENING INFLATIONARY PRESSURES.

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5. IN MANY WAYS, MINISTERIAL DECISIONS ARE SIGNIFICANT FOR WHAT THEY FAILED TO MENTION. MANY HAD EXPECTED WAGE POLICY TO BE A CENTRAL PLANK IN GOP AUSTERITY PROGRAM. DECISION ON THIS ISSUE, HOWEVER, HAS APPARENTLY BEEN DELAYED UNTIL DECEMBER 23 MEETING. MANY HAD ALSO EXPECTED APPROVAL AND ANNOUNCEMENT OF SEVERAL SPECIFIC PRICE INCREASES. FAILURE TO ANNOUNCE SUCH INCREASES INDICATES COUNCIL OF MINISTERS WILL NOT ANNOUNCE THESE INCREASES BUT RATHER ALLOW THEM TO BE INTRODUCED BY PERTINENT

MINISTRIES, AS HAPPENED RECENTLY IN THE CASE OF TOBACCO. APPARENTLY POLICY WILL BE TO ANNOUNCE AUSTERITY MEASURES INDIVIDUALLY RATHER THAN PRESENT PUBLIC WITH ONE LARGE PACKAGE. AS THESE AUSTERITY MEASURES ARE IMPLEMENTED, EFFORTS WILL CERTAINLY BE MADE TO ATTENUATE SOME OF THEIR IMPACT ON LOWEST INCOME SECTORS.

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